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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 003528

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STATE FOR NEA/I AND EEB

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SUBJECT: IRAQ 2008 OIL PRODUCTION LIKELY TO GROW marginally

Classified By: ECON COUNSELOR TODD SCHWARTZ, reasons 1.4 b and d

11. (SBU) SUMMARY: Iraq oil production and export levels (in volume) for the first half of this year were below forecast levels, but assuming no major interdictions, should grow marginally over the next year, from 1.6 million barrels per day (mmbd) in 2007 to around 1.8 mmbd in 2008, mainly thanks to the re-establishment and expansion of northern exports. The GOI plans no major projects in 2008 that would significantly increase export capacity, but it will lay the groundwork for projects that might significantly increase exports by the end of 2009. To the extent that the GOI budget depends on oil, the GOI appears likely to meet and exceed its 2007 budgeted oil revenue target by the end of the calendar year, thanks to increased export volumes and higher oil prices. END SUMMARY.

12. (C) The MoO held a planning workshop for 2008 in late August with its offices of planning, field development, technical directorate and inspector general, along with the North Oil Company, Iraq Drilling Company, State Oil Marketing Organization (SOMO), and State Company for Oil Projects (SCOP). By way of reference, the Ministry of Oil 2007 production plan called for the following production targets, in thousands of barrels per day:

	North Oil	South Oil	Total
Quarter 1	659	2300	2959
Quarter 2	690	2300	2990
Quarter 3	722	2300	3022
Quarter 4	725	2300	3025

On its face, the figures show that the MoO expects southern oil production to remain constant. All of the increase in oil production is planned to come from the northern oil fields. MoO's 2007 plan for natural gas production closely tracks its oil production targets, with all planned increases expected from the northern fields, as follows (in millions of standard cubic feet per day):

	North Oil	South Oil	Total
Quarter 1	270	1287	1557
Quarter 2	280	1287	1567
Quarter 3	290	1287	1577
Quarter 4	290	1287	1577

(NOTE: The MoO finalized its 2007 plans in February 2007; its 2008 plans similarly can be expected in the spring of 2008. END NOTE).

13. (SBU) The GOI reported daily gross oil production figures, in millions of barrels per day, as follows:

1/3/2007	2.228
1/10	1.891
1/17	1.335 (drop due to closure of Basrah
1/24	1.454 terminal, pipeline disruption)
1/31	1.84

2/7	2.01
2/14	2.085
2/21	2.092
2/28	2.152
3/7	2.121
3/14	2.062
3/21	2.025
3/28	2.078
4/4	2.068
4/11	2.066
4/18	2.15
4/25	2.19
5/2	2.17
5/9	2.17
5/16	2.12
5/23	2.02
5/30	2.02
6/6	2.06
6/13	2.034
6/20	2.014
6/27	2.074
7/3	2.075
7/8	2.081
7/16	2.071
7/23	2.08
7/30	2.06
8/5	2.07
8/12	2.03
8/19	2.02
8/26	2.17

These figures do not represent a rolling average, but a snapshot of oil production figures on each given date. The production average, as reported by MoO, is 2.064 mmbd through

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September 29, 2007. Export levels are highly correlated to production levels, but other factors affect exports. Most Iraq exports go through the Al Basrah Oil Terminal (ABOT), which has slots for four ships. Daily export volumes depend on the size of the ships and the size of the contract. ABOT staff do not dock and fill multiple ships simultaneously, but with proper setup and planning, they can maintain a constant flow to fill up one ship after another. Thus coordinated, daily export volumes are not entirely dependent on ship or contract variations.

2008 Marketing Plan

14. (C) The MoO 2008 plan calls for production capacity of the northern oil fields to increase from 688 thousand barrels per day in the first half of the year to 731 thousand barrels per day in the second half. Production capacity in the south is planned to increase from 2.1 mmbd to 2.4 mmbd. The MoO notes that the increase in production capacity will not be significantly different from 2007 to 2008.

Technical plans to increase capacity: 2008 Plan

15. (C) In the long term, to increase production, Iraq will need to build new pipelines and drill more wells. Building pipelines and drilling wells takes time (at least 2-3 years, depending on the size and complexity of the project), so the 2008 production plan focuses on repairing storage facilities and rehabilitating existing pipelines. The MoO has identified the building of storage capacity at al-Faw as key to achieving long-range export goals, and so the Ministry hopes to begin work in 2008 to build up al-Faw capacity, now non-existent, with a goal of reaching 20 million barrels. Next year the Southern Oil Company (SOC) plans to work on the design for the increase in storage capacity in its fields from 9 million to 10 million barrels. SOC will also clean the crude residue from the tank depots in the fields, and plans to implement efficient and scientific maintenance procedures, all of which should help to alleviate the mini-bottlenecks the absence of such upkeep imposes. (SOC did

not attend the planning workshop but sent in its production plan to the MoO).

¶6. (C) The rebuilding of the K3 depot, the rehabilitation of the western pipeline network, and the protection of the northern pipeline through Turkey are considered key for northern exports, but no major new works are planned in 2008; the focus instead will be largely on protecting the strategic export pipeline.

¶7. (C) Iraq will seek new export pipeline routes to Iran and Jordan, and try to re-open pipelines to Saudi Arabia and Syria, to diversify its exports and increase its energy security should any route be closed to it for whatever reason. After 2008, the MoO will also seek the capacity to export various grades of oil (light, regular, mid grade and heavy) by establishing and constructing field storage units (at PS1, ZB1, ZB2, TUBA) and a network of pipelines from the fields of al-Rumaylah and Zubayr to al-Faw, per a study performed by an international oil company (IOC). The Ministry does plan to conduct economic feasibility studies with the participation of IOCs in 2008.

¶8. (C) The MoO work plan for 2008 contemplates:
--Drilling, completing, reclaiming and connecting wells;
--Improving the quality of crude oil specifications for sulfur, water and salts, in connection with desalination and treating condensates;
--Testing the mixtures with specific weights to maintain quality;
--Reducing demurrage fees with lighting for night operations at ABOT and managerial capacity training;
--Establishing an operating company to manage the southern oil loading ports in accordance with international standards, in conjunction with the Iraqi Ports Company;
--Dealing with electricity outages (which prevents pumping and damages infrastructure);
--Accelerating intelligent pigging (internal pipeline inspections) for the western and southern pipelines;
--Maintaining, repairing or replacing pipes and obsolete pumping stations;
--Accelerating repairs to the strategic pipeline to increase pumping capacity to Turkey, Syria and Jordan; and,
--Announcing international tenders to dredge the southern ports passages.

¶9. (C) Action items for the MoO 2008 workplan include dealing with spending problems emanating from the Ministry of Finance's newfound insistence on reviewing contracts;

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developing the export network, especially in the south, using international loans or grants for the key projects, such as those from Japan and Iran; reviewing tendering procedures as a consequence of the multitude of new instructions and monitoring entities; and improving the communication of monthly and annual crude oil data from the extractive companies to the marketing company and the economic and technical directorates to prepare supply contracts and control fluctuations in exports.

SUB-PAR 2007 PERFORMANCE

¶10. (SBU) The MoF 2007 budget is currently premised upon oil exports reaching 1.7 mmbd, at a market price of USD 50/barrel. This should translate into monthly receipts of approximately USD 2.55 billion. In the first six months of 2007, the volume of oil exports has almost continuously slipped below target, but thanks to high international oil prices, Iraq was able to surpass its revenue target in three of those months. The GOI recorded oil receipts as follows:

YTD 2006 29,801,639,160.02

2007

January	2,245,621,721.47
February	1,659,172,304.59
March	2,450,967,636.85
April	2,620,203,867.61
May	2,711,698,952.44
June	2,853,376,691.74
July	3,110,124,651.79
August	3,598,493,408.17
September	2,942,020,912.14 (As of 29 Sept 2007)

YTD Total	24,191,680,146.80

COMMENT

11. (SBU) Like many other oil-producing countries, Iraq faces an aging infrastructure, but unlike most, it also suffers from major interdictions due to the ongoing war, leading to wide daily variations in production quantities. On the other hand, in August 2007 the Ministry of Oil was able to repair its 46 inch export pipeline, and resumed northern exports through Turkey. In theory, the northern flow could add another 200,000 to 500,000 bpd to Iraq's export volume, which points to an increase in oil exports in 2008 to a thirty-day rolling average around 1.8 mmbd to 2.1 mmbd, with 1.8 perhaps being more likely when factoring in the risk of interdictions and production limits. The northern exports could produce additional revenue of USD 300 to USD 750 million per month; such additional exports would add a total between USD 1.2 billion to 3 billion to the GOI's 2007 receipts. In reality, due to the need for repeated repairs, income from the northern pipeline has only totaled USD 405 million, through September 30. In the south, exports have held steady, but deterioration of the security situation in Basrah, as well as labor union discontent, could threaten the southern export route. Also, the continuing lack of an integrated national energy plan contributes to the vulnerability of the supply network throughout Iraq.

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